

**SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1**  
**DBA INTER-ISLAND MEDICAL CENTER**  
**AND SAN JUAN EMERGENCY MEDICAL SERVICES**  
**San Juan County, Washington**  
**January 1, 1994 Through December 31, 1995**

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**Schedule Of Findings**

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1. The District Should Strengthen Internal Controls Over Accountability Of Fixed Assets

During our audit of the district's fixed asset system, we noted the hospital does not have adequate descriptive detail of all property owned by Inter-Island Medical Center (IIMC). Also, it does not have an adequate system to ensure all assets included in the fixed asset records are accounted for properly. Additionally, we noted the hospital does not have an adequate system in place to ensure all fixed assets are identified as hospital property. While a physical inventory of IIMC's fixed assets was taken in April 1995, no reconciliation of the physical inventory to IIMC's fixed asset records was done.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting, and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required for all local governments regardless of size.

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports and to safeguard assets properly.

The April 1995 physical inventory of Inter-Island Medical Center assets was not reconciled to the fixed asset records because the fixed asset records do not contain sufficient descriptive and/or identifying detail.

The hospital's lack of control over fixed assets could result in errors and irregularities occurring and not being detected in a timely manner, if at all.

We recommend the hospital update its fixed asset records to ensure all fixed assets can be identified through serial numbers, tagging or otherwise permanently marking them. We further recommend the hospital continue to perform periodic inventories and reconcile those inventories to its accounting records.

2. The District Should Improve Internal Control Over The "Dummy" Account And Refunds At Inter-Island Medical Center

Our testing of refunds issued by Inter-Island Medical Center (IIMC) identified a loss of public funds of at least \$660.63. IIMC has a patient receivable account (titled the "Dummy" account) to handle receipts or disbursements for which a specific patient account has not been identified. In 1994 and 1995, a large number of transactions were posted to this account including 37 refunds totaling \$3,128.40. We tested six of these refunds representing \$1,409.92 and found two exceptions where refunds of \$660.63 were issued to patients in error.

Article VIII, Section 7 of the Washington State Constitution states:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm . . . .

The identified loss of public funds occurred due to inadequate monitoring and follow-up of billings, receipts, and disbursements to and from the "Dummy" account. This account, as currently managed, is difficult to monitor due to the high volume of transactions posted to it.

As a result of the internal control weakness noted, additional errors and irregularities resulting in the loss of public funds could occur and not be detected in a timely manner, if at all.

We recommend the district maintain detailed records to facilitate monitoring of all postings to the "Dummy" account and their subsequent resolution. These records should allow the district to readily identify those transactions comprising the "Dummy" account balance at any time. We further recommend periodic supervisory review of this account.

3. The District Should Improve Controls Over Cash Receipts

During an unannounced cash count, an insurance check in the amount of \$77.95 was observed which could not be traced to subsequent deposit. Our follow-up identified the following internal control weaknesses:

- a. Inter-Island Medical Center (IIMC) has an informal policy to not deposit insurance payments received on accounts with a \$0.00 balance. Instead, IIMC staff endorse the insurance payments and mail them to the patient. Thus, no record of checks handled in this manner is maintained.
- b. IIMC has a control procedure where receipts received by mail are copied and a calculator tape control total is established prior to transmitting the receipts to the billing and posting clerk. However, insurance checks are not included in this control total.
- c. The employee responsible for preparing the mail receipts control total also is responsible for billings, billing adjustments, and initiation of refunds.

Article XI, Section 15 of the Washington State Constitution states:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

As a result of the identified internal control weaknesses, errors or irregularities resulting in the loss of public funds could occur and not be detected in a timely manner, if at all.

In addition, IIMC could be held responsible for checks which were made out to IIMC, endorsed, and mailed to patients. By not depositing these checks and thereby tracking the receipt and subsequent disbursement, if applicable, of these payments, IIMC has no means to locate these payments if needed.

We recommend the hospital:

- a. Deposit all receipts intact.
- b. Include all receipts (including receipts with remittance advice) on the control tape and reconcile the total to receipts posted to the accounts receivable system.
- c. Reassign responsibility for preparing the mail receipts control total.